

Entomological Society Of America

Financial Statements
December 31, 2003

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McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

To the Governing Board
Entomological Society Of America
Lanham, Maryland

We have audited the accompanying balance sheet of the Entomological Society of America as of December 31, 2003, and the related statements of activities, and cash flows for the year then ended. These financial statements are the responsibility of the Entomological Society of America's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Entomological Society of America as of December 31, 2003, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Frederick, Maryland
April 29, 2004

Entomological Society Of America

Balance Sheet December 31, 2003

Assets

Current Assets

Cash and cash equivalents	\$	1,525,922
Cash - restricted		49,972
Accounts receivable, net		65,092
Publications inventory		97,927
Accrued interest		3,590
Prepaid expenses		52,463
Investments		1,441,883
Total current assets		3,236,849

Property and Equipment, net 6,708

Deposits 17,467

\$ 3,261,024

Liabilities And Net Assets

Current Liabilities

Accounts payable	\$	149,290
Deferred revenue		701,794
Accrued payroll		22,898
Accrued employee leave		46,443
Other accrued liabilities		7,140
Total liabilities		927,565

Commitments (Notes 7 and 8)

Net Assets - unrestricted 2,333,459

\$ 3,261,024

See Notes to Financial Statements.

Entomological Society Of America

Statement Of Activities Year Ended December 31, 2003

Revenue		
Subscription and publications	\$	1,012,981
Editorial charges		300,330
Dues and fees		583,553
Annual meeting		499,330
Interest income		12,053
Gain on sale of building		13,127
Rental income		102,608
Contributions		1,574
Other		5,688
Total revenue		<u>2,531,244</u>
Expenses		
Communications		866,333
Membership		190,009
Annual meeting		300,361
BCE certification		37,020
General management		801,907
Total expenses		<u>2,195,630</u>
Change in net assets		335,614
Net Assets		
Beginning		<u>1,997,845</u>
Ending	\$	<u><u>2,333,459</u></u>

See Notes to Financial Statements.

Entomological Society Of America

Statement Of Cash Flows

Year Ended December 31, 2003

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Cash Flows from Operating Activities	
Change in net assets	\$ 335,614
Adjustment to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	66,987
Interest reinvestment	(12,053)
Gain on sale of office equipment	(200)
Gain on sale of building	(13,127)
Allowance for doubtful accounts	(19,718)
Change in assets and liabilities:	
Decrease (increase) in:	
Accounts receivable	35,122
Accrued interest	(792)
Publications inventory	10,355
Prepaid expenses	1,667
Increase (decrease) in:	
Accounts payable	(21,001)
Deferred revenue	97,903
Due to Entomological Foundation, Inc.	(1,319)
Security deposits payable	(8,673)
Accrued payroll	8,741
Accrued employee leave	12,097
Other accrued liabilities	645
Net cash provided by operating activities	<u>492,248</u>
Cash Flows from Investing Activities	
Proceeds from sale of investments	197,989
Purchases of investments	(1,002,205)
Deposits paid on furniture	(4,000)
Proceeds from sale of furniture and equipment	200
Proceeds from sale of building	1,022,327
Net cash provided by investing activities	<u>214,311</u>
Net increase in cash and cash equivalents	706,559
Cash and cash equivalents:	
Beginning	869,335
Ending	<u>\$ 1,575,894</u>

See Notes to Financial Statements.

Entomological Society Of America

Notes To Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: The Entomological Society of America (the "Society") is a professional member-based organization whose purpose is to promote the science of entomology in all its sub-disciplines, for the advancement of science and the benefit of society, to issue publications that will promote these purposes, and to assure cooperation in all measures tending toward these ends. The international membership consists of individuals in colleges and universities, health agencies, private industries, and state and federal governments. The Society is divided into five geographical branches: Eastern, North Central, Pacific, Southeastern, and Southwestern. Each branch has its own elected officers and holds an annual meeting.

A summary of the Society's significant accounting policies is as follows:

Basis of accounting: The accompanying financial statements are presented in accordance with the accrual basis of accounting, whereby, revenue is recognized when earned and expenses are recognized when incurred.

Basis of presentation: The financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As of December 31, 2003, the Society had no temporarily or permanently restricted net assets.

Cash and cash equivalents: The Society considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Revenue: Membership dues are recognized as revenue ratably over the membership year. Dues received in advance are reported as deferred revenue and recognized during the period of membership.

Subscriptions and publications revenue is deferred and recognized as income over a period relating to the subscription.

Annual meeting revenue is recognized at the completion of the meeting.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted, depending on the existence and/or nature of any donor restrictions.

Receivables: The Society's receivables consist of receivables related to publications, membership dues, subscriptions, editorial charges, and merchandise. Receivables are carried at original invoice amount less an estimate made for doubtful receivables. The allowance for doubtful accounts is based on management's evaluation of the status of existing accounts receivable. The provision for doubtful accounts was \$28,817 at December 31, 2003. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

Publications inventory: Publications inventories are stated at the lower of cost, using the specific identification method, or market.

Entomological Society Of America

Notes To Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Investments: Investments are recorded at fair market value and represent investments in certificates of deposit, money market funds, mutual funds and common stock. To adjust the carrying values of these securities, the change in fair market value is recorded as a component of investment income.

Property and equipment: The Society capitalizes all expenditures for property and equipment with a cost in excess of \$500. Depreciation is computed by the straight-line method based on the estimated useful lives of the assets less salvage value. Expenditures for maintenance, repairs and renewals are charged to expense as incurred, whereas major betterments are capitalized and depreciated.

Income taxes: The Society is generally exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Association qualifies for charitable contributions deductions and has been classified as an organization that is not a private foundation. Under current Internal Revenue Service regulations, advertising revenue earned in the publication of the Society's journals is subject to unrelated business income tax. There was no tax liability for unrelated business income for the year ended December 31, 2003.

Estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial risk: The Society maintains its cash in bank deposit accounts which, at times, may exceed federally-insured limits. The Society has not experienced any losses in such accounts. The Society believes it is not exposed to any significant financial risk on cash.

Note 2. Investments

Investments are presented in the financial statements at fair market value. The investment portfolio at December 31, 2003, consisted of the following:

Certificates of deposit	\$ 802,393
Government money market funds and other savings	639,490
	<u>\$ 1,441,883</u>

Entomological Society Of America

Notes To Financial Statements

Note 3. Property and Equipment

Property and equipment at December 31, 2003, is as follows:

Office equipment	\$ 326,767
Less accumulated depreciation	320,059
	<u>\$ 6,708</u>

Depreciation expense, which is included in general management expenses, for the year ended December 31, 2003, is as follows:

Asset Category	Estimated Lives	
Building	31.5 years	\$ 30,172
Office equipment	6 -10 years	36,815
		<u>\$ 66,987</u>

Note 4. Deferred Revenue

Deferred revenue for the year ended December 31, 2003, consists of the following:

Membership dues	\$ 651,794
Meetings	50,000
	<u>\$ 701,794</u>

Note 5. Retirement Plan

The Society has a contributory retirement plan available to all employees whereby they may enter into an annuity contract with an independent insurance carrier and withhold a portion of their salaries in order to fund the policy premiums. The Society will match employee voluntary withholdings to a maximum of 6% of the individual employee's salary. During the year ended December 31, 2003, the Society's contributions were \$16,197.

Note 6. Employment Agreement

The Society has an employment agreement with the Executive Director where it accepted certain terms and conditions regarding the Executive Director's position, terms of employment, compensation, benefits, and termination. Under this agreement, the Society agrees that, in the event the Board terminates the Executive Director without cause, the Society will pay the Executive Director a severance benefit equal to four months of base salary plus the value of current benefits.

Entomological Society Of America

Notes To Financial Statements

Note 7. Leasing Arrangements As Lessor

The Society was the owner of an office building used mainly as its own operating facility until the sale of the building on November 17, 2003. The Society leased unused office space to tenants under annual and month-to-month lease terms. Rental income was \$102,608 for the year ended December 31, 2003.

Note 8. Commitments

The Society has entered into contracts for hotel rooms and with convention centers for the 2004 annual meeting. In the event of cancellation, the Society is required to pay various costs of the hotel rooms and convention centers as stipulated in the contracts, the amount of which are dependent upon the date of cancellation.

During the year ended December 31, 2003, the Society entered into an operating lease agreement for office space for a five-year term commencing February 1, 2004 and expiring January 31, 2009.

Future minimum lease payments as of December 31, 2003, are as follows:

Years ending December 31,	
2004	\$ 66,023
2005	74,006
2006	76,226
2007	78,513
2008	80,868
2009	6,755
	<u>\$ 382,391</u>

After the sale of the building on November 17, 2003, the Society leased back their space from the new owners for \$7,000 per month through January 31, 2004. Total rent expense amounted to \$10,267 for the year ended December 31, 2003.

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report On The Supplementary Information

To the Governing Board
Entomological Society Of America
Lanham, Maryland

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information which follows is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

McGladrey & Pullen, LLP

Frederick, Maryland
April 29, 2004

Entomological Society Of America

Statement Of Functional Expenses

Year Ended December 31, 2003

	Communications	Membership	Annual Meeting	BCE Certification	General Management	Total
Salaries	\$ 130,808	\$ 41,989	\$ 69,341	\$ 6,950	\$ 309,776	\$ 558,864
Fringe benefits	20,707	6,156	12,587	1,338	25,433	66,221
Total salaries and benefits	151,515	48,145	81,928	8,288	335,209	625,085
Advertising	4,244	-	-	-	1,499	5,743
Bad debt recovery	-	-	-	-	(10,995)	(10,995)
Bank and credit card fees	-	-	-	-	53,482	53,482
Contract services	302,081	-	139,274	-	123,281	564,636
Depreciation	-	-	-	-	66,987	66,987
Dues and subscriptions	-	24,807	-	-	629	25,436
Equipment repair or lease	-	-	5,610	-	17,957	23,567
Fees, taxes and licenses	1,470	-	-	178	20,928	22,576
Food and beverage	-	-	41,460	-	808	42,268
Grants and awards	-	-	7,050	13,301	12,639	32,990
Insurance	-	-	-	-	11,795	11,795
Inventory goods sold	172,820	-	-	-	-	172,820
Management fee	-	114,110	-	14,913	66,144	195,167
Miscellaneous	-	-	-	-	4,377	4,377
Phone	-	-	-	-	10,658	10,658
Postage and mailing services	94,616	2,456	3,965	31	10,064	111,132
Printing	139,587	473	9,651	309	1,279	151,299
Repairs and maintenance	-	-	-	-	20,568	20,568
Supplies	-	18	1,244	-	4,752	6,014
Training and education	-	-	-	-	1,851	1,851
Travel	-	-	10,179	-	22,478	32,657
Utilities	-	-	-	-	25,517	25,517
Total expenses	\$ 866,333	\$ 190,009	\$ 300,361	\$ 37,020	\$ 801,907	\$ 2,195,630